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Message Text

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53
ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

EA-11 FRB-03 INR-11 IO-14 NEA-14 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-03 LAB-06 SIL-01 SWF-02

OMB-01 PA-04 PRS-01 USIA-15 FEA-02 AEC-11 DODE-00

FPC-01 H-03 INT-08 L-03 NSC-07 PM-07 SAM-01 SCI-06

SS-20 STR-08 DRC-01 /239 W
---------- 126116
R 200939Z AUG 74
FM AMEMBASSY ROME
TO SECSTATE WASHDC 6480
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY THE HAGUE
US MISSION OECD PARIS
US MISSION EC BURSSELS

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E.O. 11652: N/A
TAGS:ENRG, IT
SUBJECT: GOVERNMENT APPROVES FUEL OIL PRICE INCREASE

REF: ROME A-499 (NOTAL)
ROME A-498 (NOTAL)

1. BEGIN SUMMARY: ITALIAN GOVERNMENT HAS APPROVED APPROXIMATELY
20 PER CENT INCREASE IN PRICE OF FUEL OIL, WIDELY ACKNOWLEDGED IN
RECENT MONTHS TO BE UNDERPRICED IN ITALIAN MARKET RELATIVE TO OTHER
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PETROLEUM PRODUCTS. JUSTIFICATION FOR INCREASE GIVEN AS "OPPORTUNE-

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NESS" OF ALIGNING ITALIAN PRICE WITH THAT PREVAILING IN OTHER
PRINCIPAL EUROPEAN MARKETS. END SUMMARY.

2. GOI INTERMINISTERIAL PRICE COMMITTEE (CIP) APPROVED, EFFECTIVE
AUGUST 17, INCREASE IN PRICE OF FUEL OIL RANGING FROM 11.5 PER CENT
FOR LIGHT GRADE TO 21.9 PER CENT FOR MORE COMMONLY USED HEAVY GRADE.
THAT DOMESTIC PRICE OF PRODUCT WAS ARTIFICALLY LOW WAS A WELL
DOEUMENTED FACT ACKNOWLEDGED BY ALL, INCLUDING THE STATE OIL COMPANY
ENI. OIL INDUSTRY, IN PARTICULAR THE MULTINATIONALS WITH MORE
LUCRATIVE MARKETING OPPORTUNITIES ELSEWHERE IN EUROPE, HAVE BEEN
PRESSURING GOVERNMENT FOR PRICE RELIEF OVER PAST MONTHS, BUT UNFAVOR-
ABLE POLITICAL CLIMATE (E.G., RECENT PETROLEUM INDUSTRY SCANDAL, ROME
2156, 1540 NOTAL) AND ECONOMIC CLIMATE HAVE COMPLICATED THE SITUATION
,
MAKING MORE DIFFICULT A FAVORABLE GOVERNMENT DECISION. PRICE OF
FUEL OIL HAS TRADITIONALLY BEEN HELD LOW IN ITALY AT EXPENSE OF OTHER
REFINED PRODUCTS AS AID TO INDUSTRY WHICH HEAVILY DEPENDENT UPON IT.
RECENT PETROLEUM PRODUCT PRICE INCREASES HAVE LARGELY SPARED FUEL
OIL, WITH BURDEN OF INCREASE FALLING UPON GASOLINE, HEATING OIL AND
KEROSENE. PROSPECT OF SERIOUS FUEL OIL SHORTAGE THIS WINTER AS A
RESULT OF REFINERS CUTTING BACK PRODUCTION AND/OR EXPORTING TO MORE
LUCRATIVE MARKETS BECAME APPARENT TO GOVERNMENT AND ULTIMATELY FORCED

TO ISSUE.

3. PRICE INCREASE, WHICH GOES ENTIRELY TO COMPANIES, IS AS FOLLOWS:
HEAVY FUEL OIL: FORM 34.2 TO 41.7 LIRE/KILO (PLUS 21.9PER CENT),
LIGHT FUEL OIL: FROM 44.9 TO 50.1 LIRE/KILO (PLUS 11.5 PER CENT).
THIS EXPECTED TO YIELD COMPANIES SOME ADDITIONAL $500 MILLION IN
REVENUE BASED ON 1973 PRODUCTION OF 56 MILLION TONS AND AVERAGE PRICE
S
INCREASE OF 6 LIRE/KILO. OIL COMPANIES APPEAR TO BE GENERALLY
SATISFIED WITH THE GOVERNMENT DECISION. MOBIL SOURCE INDICATES
TO US THAT, WHILE THEY HAD BEEN HOPING FOR SEVERAL MORE LIRE PER
LITER (45 RATHER THAN 41.7 LIRE FOR HEAVY FUEL OIL), MORE IMPORTANT
IS THE FACT THAT THE GOERNMENT ACTED.

4. COMMENT: AS EXPECTED, THE POLITICAL LEFT--IN PARTICULAR
THE PCI--IS CRITICAL OF THE GOVERNMENT DECISION. SUCH COMES AS
NO SURPRISE, GIVEN ITS KNOWN HOSTILITY TOWARD THE INTERNATIONAL OIL
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COMPANIES. THE TIMING OF THE GOVERNMENT DECISION IS INTERESTING IN
TWO RESPECTS: 1) THAT IT COMES AT PEAK OF THE AUGUST VACATION
EXODUS WHEN VIRTUALLY NOBODY IS AROUND TO PROTEST; AND 2) THAT IT
COINCIDES WITHT REPORTS OF A RUMORED AGREEMENT BETWEEN ENI (WHICH HAS
ITALY'S NATURAL GAS MONOPOLY) AND CONFINDUSTRIA (THE NATIONAL IN-
DUSTRIAL ASSOCIATION) ON A SOON-TO-BE-IMPLEMENTED TWO-STAGE INCREASE
IN THE PRICE OF NATURAL GAS FOR INDUSTRIAL USERS. VOLPE

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